Summary of the Income Tax Bill, 2025

The **Income Tax Bill, 2025**, introduced by Finance Minister Nirmala Sitharaman on **February 13, 2025**, replaces the **Income Tax Act, 1961**. It will take effect from **April 01, 2026**, aiming to simplify India's tax system without major policy changes.

Objectives

- Make tax laws easier to understand and follow.
- Keep tax rates and policies stable.
- Reduce complexity and outdated rules.

I. Key Structural Changes

- **Shorter and Clearer**: Cuts word count by nearly 50% (from 512,535 to 259,676), reduces sections (819 to 536), and chapters (47 to 23).
- **Organized**: Groups related rules together and removes unnecessary sections.
- **More Tools**: Increases use of tables (18 to 57) and formulas (6 to 46) for clarity.

	Old Act (1961)	**New Bill (2025)**
Chapters	47	23
Sections	819	536
Tables	18	57
Formulas	6	46

II. Key Definitions Clarified

Clause 2 consolidates definitions, introducing modern concepts such as:

- Tax Year: Replaces "Previous Year" and "Assessment Year" with a unified term (April 1 to March 31), adjustable for new businesses.
- Virtual Digital Asset (VDA): Encompasses cryptocurrencies and NFTs.
- Electronic Mode: Specifies digital transaction methods.

III. Income Sources and Residency Updates

- Deemed Income (Clauses 5 & 9): Provides precise guidelines on income deemed to arise in India, including payments to specified individuals, enhancing tax liability determination.
- Residency (Clause 5): Refines rules for Indian citizens employed abroad, adjusting the 60-day stay exemption.

IV. Tax Rates

The Bill retains tax rates and slabs as updated by the Finance Bill, 2025, ensuring no unexpected changes.

V. Income Categories: What's New

A. Salary

- All salary-related rules are now under a single "Salaries" section.
- Eliminates the entertainment allowance deduction for government employees.
- Raises the standard deduction to ₹75,000 (new regime), capped at salary earned.
- Extends relief for arrears, multi-year salaries, and lump-sum pensions (Clause 157), with a one-time claim restriction.

B. House Property

- Annual Value: Excludes uncollectible rent, offering relief to landlords.
- Self-Occupied Homes: Up to two properties can have a nil annual value, with interest deductions up to ₹2,00,000 annually.
- Stock-in-Trade: Grants a two-year nil value period for unsold properties.
- Arrears/Unrealized Rent: Taxed upon receipt with a 30% standard deduction, clarified for consistency.

C. Capital Gains

- Permits non-residents to offset foreign exchange fluctuations on long-term gains from Indian shares/debentures.
- Simplifies non-taxable transfer rules (Section 47).

D. Business and Profession

- Expense Deductions: Merges Sections 30 and 31 into Clause 28, allowing proportional deductions for mixed-use assets.
- Depreciation: Excludes GST input tax credit from asset costs; reduces wording by 40% with clearer "Actual Cost" (Clause 39) and "Written-Down Value" (Clause 41) definitions.
- Professions: Adds "Information Technology" and "Company Secretary" as recognized fields.
- Presumptive Taxation: Unified into one simplified section for residents and non-residents.

E. Other Sources

- Clarifies tax-free gifts from maternal and paternal relatives.
- Taxes VDA income at 30% (Clause 194), allowing only acquisition cost deductions.
- Expands taxation of non-resident royalty payments beyond India-sourced income.

VI. Clubbing of Income

No changes to taxation rules, but introduces a clear formula:

A = B × (C ÷ D) where:

- A: Income taxed in an individual's hands.
- B: Spouse's or son's wife's earnings from a business/firm.
- C: Their investment value.
- D: Total investment.

VII. Deductions and Exemptions

- Combines bank interest deductions (Sections 80TTA/80TTB) into one rule.
- Grants startups a 100% tax holiday for three years within their first decade (Clause 140).
- Removes inter-corporate dividend deductions for certain companies.
- Organizes exemptions into Schedules II-VII for accessibility.

VIII. Assessments and Appeals

- Simplifies faceless assessments (Section 144B) and time limits (Sections 153 & 155) with tabular formats.
- Removes outdated search provisions (Sections 153A-153D).
- Expands income escaping assessment scope (Section 147), validating proceedings without prior notice in some cases (Clause 8).
- Extends reassessment notice periods:
  Show Cause Notice: 4 years (from 3); 6 years (from 5).
- Reassessment Notice: 4 years 3 months (from 3 years 3 months); 6 years 3 months (from 5 years 3 months).
- Updates block assessment timeline to 12 months from quarter-end (Clause 8).
- Enhances search powers to include digital assets and systems, restricting lower officers' authority.

IX. Search, Seizure, and Survey

- Expands "documents" to include digital media and systems (Clause 8).
- Grants authorities access to locked digital assets, bank lockers, and accounts.
- Extends presumptions to undisclosed VDAs and digital records.
- Limits search initiation to higher-ranking officers.
- Enhances survey powers to inspect digital systems, requiring statements under oath.

X. Tax Audit Updates

The tax audit requirements under Section 44AB of the Existing Act have been overhauled in the Proposed Bill –

Nature of Business/ Profession	Existing Act	Proposed Bill	Key Changes
Business (Normal Case - 44AB(a) of the Existing Act)	Turnover above Rs. 1 crore	Turnover above Rs. 5 crore	Higher turnover limit for tax audit exemption
Business (If Cash Transactions < 5%)	Rs. 10 crore	Rs. 25 crore	More businesses exempted from tax audit requirements
Professionals (44AB(b) of the Existing Act)	Rs. 50 lakh	Rs. 1 crore	Limit doubled for tax audit exemption

Changes in Tax Audit Filing Deadlines

Aspect	Deadline under the Existing Act	Deadline under the Proposed Bill
Tax Audit Report Submission (Form 3CD)	30th September	31st October
ITR Filing for Tax Audit Cases	31st October	30th November

XI. Presumptive Taxation

The Presumptive Taxation Schemes available for businesses and professionals have been expanded, further reducing the tax audit burden.

Business:

Provision in Existing Act	Provision in the Proposed Bill
Turnover up to ₹2 crore eligible for presumptive taxation	Turnover up to ₹3 crore eligible for presumptive taxation
Presumptive income = 8% of turnover (6% for digital receipts)	Presumptive income = 8% of turnover (6% for digital receipts)
If turnover > ₹2 crore, tax audit mandatory	If turnover > ₹3 crore, tax audit mandatory

Professionals:

Provision in Existing Act	Provision in the Proposed Bill
Turnover up to ₹50 lakh eligible for presumptive taxation	Turnover up to ₹1 crore eligible for presumptive taxation
Presumptive income = 50% of turnover/ receipts	Presumptive income = 50% of turnover/ receipts
If turnover > ₹50 lakh, tax audit mandatory	If turnover>₹1 crore, tax audit mandatory

XII. TDS/TCS

- Consolidates 43 TDS sections into Clause 393 and TCS into Clause 394 with clear tables.

- Broadens eligibility for lower/no TDS/TCS certificates.

XIII. Income Tax Returns

- Splits rules into PAN and ITR sections (Clause 263).
- The Proposed Bill stipulates that the refund claim can be made in a tax return only if it is filed within the due date of filing original tax return.
- Empowers CBDT to define filing triggers.

XIV. Transfer Pricing

- Replaces arithmetic mean with CBDT-prescribed methods for Arm's Length Price.
- Clarifies Associate Enterprise definitions for broader scope.
- Extends ±3% tolerance to single comparable prices.

XV. Penalties

- Removes pre-penalty hearings for certain offenses; requires senior approval for prosecution.
- Designates prosecution as non-cognizable, needing senior approval; repeat offenses face 6 months to 7 years imprisonment plus fines.

XVI. Miscellaneous

- Includes VDAs in tax proceedings. Any transfer of such assets during ongoing tax proceedings will now be considered void against tax claims.
- Defines "Electronic Mail" and "Electronic Mail Message" explicitly.
- Expands faceless scheme authority (Section 293D).
- Applies Alternate Minimum Tax to firms/LLPs under specific conditions (Clause 206).

XVII. Non-Profit Organizations

- Unifies rules under "NPO" terminology with over 20 provisions for registration, taxation, and compliance.
- Maintains tax exemptions for 85% charitable income use.

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